



**Public Comment on the Millennium Challenge Account FY 2005 Selection Process
from the NGO Implementation Working Group on the MCA**

September 30, 2004

The NGO Implementation Working Group on the Millennium Challenge Account is a broad coalition of non-governmental organizations co-chaired by Asma Lateef of Bread for the World and Kristin Brady of the Academy for Educational Development that has conducted advocacy on issues related to the Millennium Challenge Account Initiative. The NGO Working Group includes the 160+ NGOs that comprise InterAction as well as representatives of the broader development community including the Audubon Society, the Center for Global Development, the Council on Foreign Relations, and DATA.

The NGO Implementation Working Group on the MCA welcomes the opportunity to comment on the methodology and criteria for FY 2005 selection for eligibility for MCA. The working group acknowledges the MCC's decision not to make far-reaching changes in FY 2005 given the proximity to the FY 2004 selection process. While the working group would like to highlight several issues of concern related to the FY 2005 selection criteria and methodology, the group recognizes that implementation issues must be the highest priority at this critical time in the start-up phase.

Transparency and board discretion

One of the hallmarks of the MCC is its desire to have an open, transparent process throughout all phases of the MCA. We have been extremely pleased with the MCC's openness to meetings and discussions to date, and commend the MCC for posting relevant information on its website. From the first announcement of the selection criteria in 2003, there has been widespread discussion and debate about the process which has helped refine and strengthen the selection criteria and methodology. In the spirit of transparency and continued discussion to improve the process, the working group recommends that all public comments be made available on the MCC's website.

The administration has made it clear that the MCC will select countries according to scores on quantitative indicators and based on MCC Board discretion where data is missing or indicators are weak. It has also been noted that qualitative information will be used to supplement areas such as gender, environment and disability where quantitative data is lacking. The board exercised such discretion during its first selection process with the result that some countries were included and others were excluded. While the MCC has provided information about why countries were included, to date they have not provided information regarding why countries were excluded. The working group recommends that the MCC publicly state the reasons for diversions from the quantitative

selection process in all scenarios, including those cases in which qualitative information may have influenced selection.

Missing data

The MCA authorizing legislation set aside \$5 million to improve data collection. The working group understood that these funds would be used to help candidate countries that lack the required data to collect it and to improve the quality of the indicators. The working group would appreciate greater clarification on the MCC's intention for these funds.

Median scores

The MCA selection methodology currently requires that countries score above the median on half the indicators in each category (ruling justly, encouraging economic freedom, and investing in people) to qualify for assistance. Assuming that the MCA-eligible countries continue to improve their performance on these indicators, the median is likely to rise over time, making it more difficult for new countries to rise above the line. In order to avoid this problem, the working group recommends setting absolute hurdles where possible (as has been done in the case of inflation), rather than relying on floating targets. This would create a more rational and reliable incentive structure, encouraging new countries to meet the criteria rather than allowing them to fall further behind.

Gender

The working group commends the MCC for including girls' primary completion rates among its FY 2005 indicators for determining country eligibility. Rating countries according to their success in ensuring that girls complete basic schooling is an effective means of promoting equal access to education and of demonstrating U.S. commitment to improving the status of women and girls. Extensive research has shown that girls' completion of primary school brings dramatic economic returns and health benefits both to the individual and to society at large, making girls' education key to long-term growth and poverty reduction.

Similarly, the working group welcomes the announcement that the MCC is considering use of a second gender-sensitive indicator, the percentage of births attended by a skilled attendant, in future competitions. Ensuring that pregnant women have access to a doctor, nurse, or other trained birth attendant helps to reduce maternal mortality and morbidity rates and thereby improves the health and well-being of entire families and communities. Skilled birth attendance is not only an equity measure of a health system's ability to provide adequate care for women, but also a reflection of a government's willingness to invest in the health of its poorest and most vulnerable populations. The working group therefore urges the MCC to adopt this indicator as soon as possible, in order to reinforce the importance it attaches to gender equity in development.

If growth is to be sustainable, it is essential that countries' policies for promoting economic freedom and just governance also serve to empower women. Currently, none of the MCC country eligibility criteria in the baskets for "ruling justly" or "encouraging

economic freedom” measure a country’s success in protecting rights or promoting opportunities for women. We would encourage the MCC to add gender-sensitive indicators in these categories, as well, to ensure that eligible countries are taking a multi-sectoral approach to ensuring full and active participation of women in all aspects of public life.

Number of indicators for investing in people

The ruling justly and economic freedom categories each have six indicators whereas the investing in people category has only four indicators. While increasing the number of indicators in the investing in people category would effectively dilute the relative weight of each of the current indicators, this working group believes there would be additional benefit in raising the number of investing in people indicators to be on par with the other categories. Increasing the number of indicators would strengthen the signal sent to recipient countries about the importance of these kinds of policy reforms in MCA programs. Additional indicators would allow countries greater flexibility in demonstrating commitment to investing in people. Any new indicators however should be chosen carefully and reflect solid development research and positive correlation to poverty reduction and economic growth.

Inflation rate

The MCC’s choice of a 20% inflation rate as the indicator for 2004 made sense because a significant body of research demonstrates that inflation rates above 20% impede consistent, sustainable growth. Reducing the inflation rate to 15% in 2005 certainly makes the hurdle tougher for countries to meet, but does not necessarily further facilitate economic growth. Though 15% does not seem unreasonable, we rather support maintaining 20% given that it is well-grounded by the research.

For 2006, MCC has indicated its intention to further reduce the inflation indicator – to a standard of 10%. We strongly object to this change as it does not seem to have any research base to reflect that a 10% inflation rate is more favorable for growth or poverty reduction. Moreover, such a precipitous drop has the potential to eliminate a number of very viable candidate countries, and in so doing, offers no clear benefits.

Focus on the poorest countries

This working group has continued to press for the MCA to maintain focus on the poorest countries. In this vein and given the present challenges to meeting originally proposed funding targets, we recommend that the candidate country pool not be expanded to include middle income countries until the full funding for this program has been secured.

Implementation

Finally, as noted above, it is critical that the MCC focus on implementation issues as year two of this initiative is nearly underway. As part of the implementation, the working group urges the MCC to pay particular attention to the following key issues that are essential to the success of this undertaking:

- Pro-poor economic growth: evaluating compacts to ensure that strategies proposed by countries support economic growth in such a way as to have a strong, direct impact on poverty reduction.
- Role of civil society: ensuring that civil society has been meaningfully consulted in the development of compacts, including non-governmental organizations, private voluntary organizations, academia, women's organizations, local trade and labor organizations, and the business community, as instructed in the legislation.
- Gender integration: ensuring that the MCC is integrating gender throughout the process to ensure that interventions are designed to benefit both women and men for the greatest return on our development investment. This includes not only integrating gender into the eligibility criteria, but also the compact evaluation process, assessment of civil society consultation, project benchmarks, monitoring and evaluation.